

Future Directions Australian Bond

Quarterly Investment Option Update

30 June 2019

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the UBS Composite Bond (All Maturities) Index on a rolling 3-year basis. The portfolio invests in short and long-term fixed interest securities including government, bank, corporate and asset backed securities, derivatives and currency. The portfolio may also have exposure to international securities in both developed and emerging markets. In normal circumstances the portfolio's international investments are fully hedged back to Australian dollars.

Investment Option Performance

To view the latest investment performances for each product, please visit www.amp.com.au

Investment Option Overview

Investment category	Australian Fixed Interest
Suggested minimum investment timeframe	2 - 3 years
Relative risk rating	Low to Medium
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Australian Fixed Interest	100
Cash	0

Actual Allocation	%
International Fixed Interest	3.50
Australian Fixed Interest	87.18
Cash	9.32

Fund Performance

The Fund posted a positive return (before fees) in the June quarter but underperformed the benchmark. The largest component of the portfolio, held in conventional government bonds and managed by **AMP Capital**, underperformed its benchmark. The smaller inflation-linked component, managed by **Ardea**, outperformed its benchmark. Both managers generated positive absolute performance.

AMP Capital's interest rate management was the main detractor from relative performance. Spread trades between Canadian and US short-dated maturities had a negative impact as the Canadian front end underperformed following strong inflation data. Previous contributions from spread narrowing on long-dated hedge positions between US and European rates, and US versus UK inflation spreads, were partially eroded in June. Yield curve positioning in Europe contributed to performance.

Inflation-linked bond fund manager **Ardea's** relative performance benefited primarily from the outperformance of semi-government bonds and from a flattening of the yield curve. Inflation positioning was further supportive of performance over the quarter. The portfolio's positioning is predicated on the expectation that near-term inflation pressures are likely to remain subdued, whereas longer-term pressures have considerable scope to exert themselves.

Market Review

A highlight of domestic bond trading in April was the further inversion of yield spreads across all tenors of Commonwealth Government bonds relative to their US counterparts. Bond yields extended their downward move over the remainder of the June quarter amid a slowdown in the rate of private sector credit growth and a contraction in business and personal lending. In early June, the Reserve Bank of Australia announced a widely anticipated decrease of 0.25% in the official cash rate to 1.25%. The RBA subsequently cut the rate by a further 0.25% in early July, citing a desire for lower unemployment. The Commonwealth Government 2-year bond yield ended the quarter at 0.98%, while the 10-year bond yield ended at 1.32%.

Outlook

With the Reserve Bank of Australia (RBA) cutting the cash rate to 1.25% in early June and telegraphing further interest rate cuts, Australian yield premiums are narrowing compared to those available in Japan and Europe. Although Australian sovereign fixed income and corporate credit still remain relatively attractive from an international and yield perspective, this advantage will steadily erode as the RBA completes its cutting cycle. A continuing weak housing market and high household debt levels also remain areas of concern and are likely to add to downward pressure on yields.

Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP0066AU*
AMP Flexible Super - Retirement account	AMP1345AU*
AMP Flexible Super - Super account	AMP1474AU*
CustomSuper	AMP0066AU*
Flexible Lifetime - Allocated Pension	AMP0599AU*
Flexible Lifetime - Investments (Series 1)	AMP0693AU*
Flexible Lifetime - Investments (Series 2)	AMP1409AU*
Flexible Lifetime - Term Pension	AMP0920AU*
SignatureSuper	AMP0796AU*
SignatureSuper - Allocated Pension	AMP1149AU*
SignatureSuper Select	AMP0796AU*

*Closed to new investors

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